

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 356 - SB 564

March 27, 2011

SUMMARY OF BILL: Requires each TennCare contracted managed care organization (MCOs) to enter into a contract for medical assistance with each nursing facility and any of the facility's associated physicians or hospitals within the MCO's service area. After 90 days of negotiations, any MCO and nursing facility that has been unable to agree and enter into a contract must enter into binding arbitration. The MCO or nursing facility is prohibited from participating in the TennCare program unless it agrees to the arbitration. Applies to all MCO contracts entered into or renewed on or after July 1, 2011.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$129,400,300

Increase Federal Expenditures - \$253,815,000

Assumptions:

- According to the Bureau of TennCare, the provisions of the bill will require MCOs to contract with almost all providers in the state which would require the state to return to an administrative service organization (ASO) arrangement with the MCOs under contract.
- Currently, the MCOs accept risk. The return to the ASO arrangement will require the state to accept risk.
- According to TennCare, the actuarial estimate for savings from managed care components built into the rate structure for MCOs to control provider costs and accept risk is seven percent or \$383,215,354 in FY11-12.
- According to TennCare, these savings will not be realized resulting in an increase in state expenditures of \$129,400,329 at a rate of 33.767 percent and federal expenditures of \$253,815,025 at a match rate of 66.233 percent.
- Pursuant to Tenn. Code Ann. § 56-32-103(e), the Department of Commerce and Insurance is required to ensure adequacy of the provider networks of the MCOs for licensure purposes. Any cost incurred by the Department due to changes to the provider networks will not be significant and can be accommodated within existing resources without an increased appropriation or reduced reversion.

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CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/kml